562

United States Department of Agriculture

Economic Research Service

Agriculture Information Bulletin Number 562

March 1989

The Importance of Transfer Payments in Nonmetro America

Linda M. Ghelfi
Robert A. Hoppe

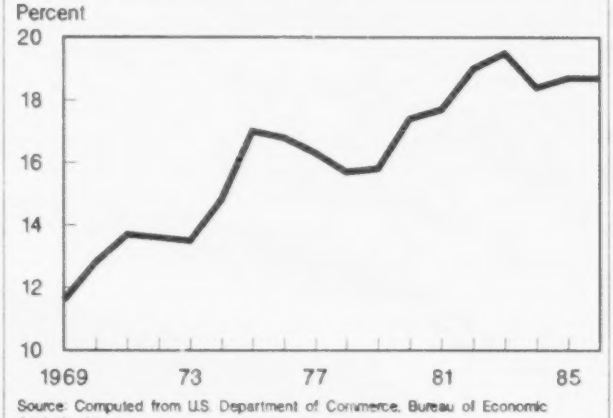
Abstract: *Transfer payments (cash or goods, mostly from Government programs, received by individuals for which no work is currently done) are an important source of income in nonmetro areas, accounting for 18.7 percent of annual personal income. Social Security and medical payments account for nearly two-thirds of transfer payments to nonmetro areas. Transfers, which continue even if local employment falls during recessions, may make local economies more stable in the short run. However, nonmetro economies that greatly depend on transfer income may be sensitive to changes in Government programs affecting the payments.*

Transfer Payments Are A Large, Growing Income Source in Nonmetro Areas

In 1969, transfer payments to nonmetro areas totaled $44 billion (in 1986 dollars) and accounted for 11.6 percent of nonmetro personal income. By 1986, the payments grew to $119 billion, accounting for 18.7 percent of personal income. By comparison, transfers to metro areas grew from $155 billion (in 1986 dollars) to $400 billion from 1969 to 1986. Although transfer payments to metro areas are larger than those to nonmetro areas, they account for a lower percentage of metro income, 8.8 percent in 1969 and 13.8 percent in 1986.

With nearly one-fifth of all nonmetro income received from transfers, changes in transfer programs may affect local economies. Compared with recipients of other income, transfer income recipients are more likely to spend their income in the local community (*1, 2*). (Italicized numbers in parentheses identify literature cited in the References at the end of this report.) The size of transfer income and the propensity of transfer recipients to spend in the local community make transfer payments of concern not only to the recipients but also to local policymakers and retailers.

Figure 1
Transfer payments as a percentage of nonmetro personal income



Source: Computed from U.S. Department of Commerce, Bureau of Economic Analysis data.

Most transfer payments are cash or goods provided by Government programs for which no work was done in the current period. These payments come from retirement and disability programs, mainly Social Security; Medicare and Medicaid; public assistance programs, such as Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), and Food Stamps; unemployment insurance; veterans' benefits; and other programs. (See Definitions at the end of this report.) Corporations and businesses pay a very small amount (4.3 percent) of transfers in the form of gifts to nonprofit institutions, personal injury payments to individuals other than employees, consumer bad debts, cash prizes, and unrecovered thefts.

A 1.75:

READEX FICHE best copy available

Important aspects of the role of transfer payments in nonmetro areas include:

- growth in transfers' contribution to income,
- amount and composition of transfers, and
- geographic variation in dependence upon transfer income.

Transfers' Contribution to Nonmetro Income Grew in Seventies and Eighties

The share of income from transfers experienced a long-term upward trend in nonmetro areas from 1969 to 1986. Transfers grew from 11.6 percent of nonmetro personal income in 1969 to 18.7 percent in 1986.

Several factors contributed to this long-term increase in the share of income from transfers. Benefits paid by many retirement and disability programs are adjusted annually to compensate for inflation. These transfers' share of income increases when prices rise more rapidly than earnings. Medicare and Medicaid pay doctors, hospitals, and other providers of medical services for the costs of providing services to persons covered by these programs. Medical costs have risen much faster than earnings since 1969, making these medical payments grow as a share of income. Persons 65 and older are a growing proportion of the total population, particularly in nonmetro areas, resulting in more retirees receiving Social Security and Medicare and a higher percentage of total local income from transfers.

Wider eligibility and increased payment levels also helped to raise transfer payments over the 1969-86 period. In 1973, Medicare began to cover disabled beneficiaries of the Social Security and railroad retirement programs as well as persons requiring dialysis or a kidney transplant due to end-stage renal disease. In 1974, Congress mandated that all counties offer the Food Stamp Program to their residents, adding more transfer recipients. Before automatic indexing of Social Security benefits for inflation began in 1975, benefit increases were legislated, sometimes at very high levels. The largest such increase was 20 percent in 1972.

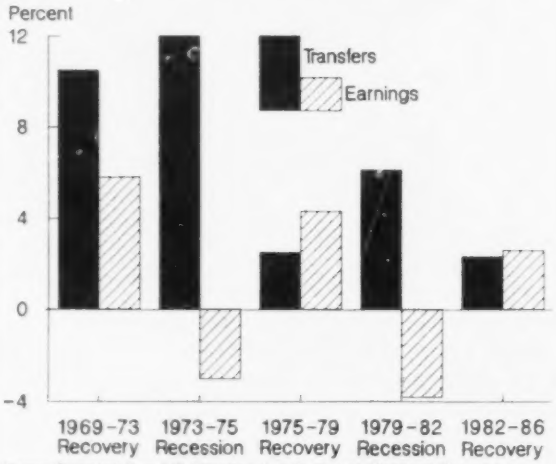
The gradual upward trend from 1969 to 1986 sharply increased during the 1973-75 and 1979-82 recessions (fig. 1). Transfers comprised a larger share of income during these recessionary periods not only because earnings declined but also because the amount of transfers paid grew (fig. 2). More unemployed workers receive unemployment compensation and apply for food stamps to tide them over during recessions (*3*). People also tend to retire at younger ages during recessions and collect Social Security earlier than they would normally.

Transfers Come From Many Sources and Pay Varying Amounts

Annual per-capita amounts of transfer income show the importance of transfers to the local economy. In 1986, transfer payments amounted to $2,120 per capita in nonmetro areas. Relative to other sources of income that year, transfers were less than one-third the size of earnings (wages, salaries, and self-employment income), which averaged $7,189 per capita, but slightly larger than dividends, interest, and rental income, which averaged $2,014 per capita.

Transfer payments came from various sources that paid widely varying amounts per capita in nonmetro areas in 1986 (table 1). Retirement and disability programs contributed the greatest share of nonmetro transfer income, paying about $1,179 per capita ($881 from Social Security and $297 from other programs). These programs paid 55.6 percent of all transfers, 41.6 percent from Social Security and 14 percent from other programs (table 1). Thus, over half of all transfers support retirees, disabled workers, and their dependents and survivors.

Figure 2
Average annual change in nonmetro real transfer payments and earnings during recoveries and recessions



Source: Computed from U.S. Department of Commerce, Bureau of Economic Analysis data.

Medical payments were the next largest source of nonmetro transfer income, paying $461 per capita. Medical payments were the only program to increase significantly as a proportion of transfers, from 13.5 percent in 1969 to 21.7 percent in 1986.

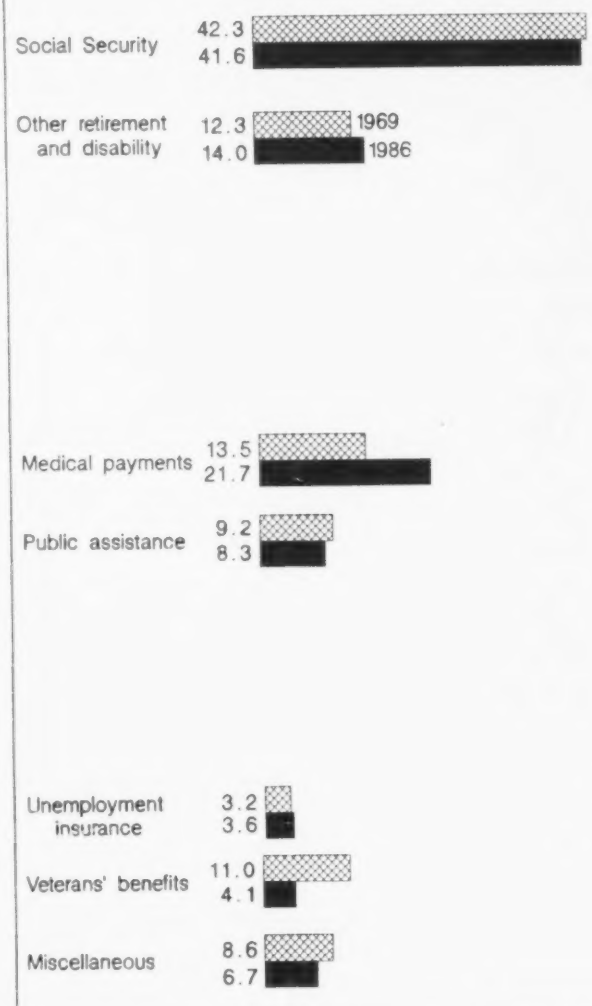
Public assistance paid $177 per capita in nonmetro areas in 1986. The three major programs (SSI, AFDC, and Food Stamps) each paid about $50 per capita. Contrary to the general perception that public assistance programs are responsible for gross increases in Government spending, these

Table 1—Real per-capita transfers in nonmetro areas[1]

Program	1969	1986	Growth 1969-86	Distribution of growth
	1986 dollars[2]			*Percent*
Total transfer payments	937	2,120	1,184	100.0
Social Security	396	881	486	41.0
Other retirement and disability:				
Railroad retirement	25	32	7	.6
Federal civilian retirement	26	81	55	4.6
Military retirement	26	62	37	3.1
State and local government retirement	32	90	57	4.8
Workers' compensation, temporary disability, and black lung	6	32	26	2.2
Subtotal	115	297	182	15.4
Medical payments	126	461	334	28.2
Public assistance:				
Supplemental Security Income	49	54	4	.4
Aid to Families with Dependent Children	27	46	20	1.7
Food stamps	6	54	48	4.1
Other assistance programs	4	22	18	1.5
Subtotal	86	177	90	7.6
Unemployment insurance	30	76	46	3.9
Veterans' benefits	103	86	-17	-1.4
Miscellaneous payments	81	142	62	5.2

Share of total transfer payments for 1969 and 1986

Percent



[1]Numbers may not add to totals due to rounding.

[2]Transfers in 1969 were adjusted using the implicit price deflator for personal consumption expenditures to reflect their value as of 1986. With the deflator valued at 100 for 1986, the deflator for 1969 was 35.9.

Source: Computed from data provided by the U.S. Department of Commerce, Bureau of Economic Analysis.

programs accounted for only 7.6 percent of the growth in nonmetro per-capita transfers from 1969 to 1986.

Unemployment insurance paid $76 per capita in nonmetro areas in 1986 compared with $30 (in 1986 dollars) in 1969. The amount is higher when unemployment is high and many more workers draw unemployment insurance and lower when unemployment is low and few workers need benefits. The 1986 national unemployment rate of 6.9 percent was almost double the 1969 rate, which helps explain the much higher 1986 per-capita unemployment insurance payments. Higher earnings per worker in 1986 also contributed to increased unemployment insurance because benefit amounts are tied to wages the unemployed had earned when working.

Veterans' benefits in nonmetro areas fell from $103 per capita in 1969 to $86 in 1986 (both in 1986 dollars) and as a share of transfers from 11 to 4 percent. Nationwide, beneficiaries of veterans' retirement and disability programs decreased by 9.5 percent from 1969 to 1986 while the total population increased by 19.7 percent. Per-capita veterans' benefits correspondingly declined because payments to these beneficiaries accounted for more than 80 percent of total veterans' benefits. However, at $86 per capita, veterans' benefits are still a larger source of transfer income in nonmetro areas than

Table 2—Ranking of nonmetro areas of States by percentage of income from transfers, 1986[1]

Area	Income from transfers	Per-capita transfers[2]			
		Total	Retirement and disability	Medical payments	Public assistance
	Percent	*Dollars*			
United States	14.7	2,153	1,158	513	187
Metro	13.8	2,162	1,151	529	191
Nonmetro	18.7	2,120	1,179	461	177
West Virginia	25.5[3]	2,483[3]	1,500[3]	431	241[3]
Louisiana	**23.4[3]**	**2,077**	**926**	**499[3]**	**266[3]**
Florida	22.1[3]	2,534[3]	1,607[3]	522[3]	127
Mississippi	22.0[3]	1,993	992	433	284[3]
Arkansas	21.7[3]	2,208[3]	1,203[3]	527[3]	173
Pennsylvania	21.6[3]	2,488[3]	1,393[3]	584[3]	164
Kentucky	21.4[3]	2,055	1,085	445	254[3]
Oklahoma	20.9[3]	2,253[3]	1,220[3]	508[3]	176
Missouri	20.8[3]	2,232[3]	1,233[3]	545[3]	166
Arizona	20.7[3]	2,025	1,242[3]	286	160
Michigan	**20.7[3]**	**2,346[3]**	**1,240[3]**	**540[3]**	**232[3]**
California	**20.6[3]**	**2,525[3]**	**1,307[3]**	**572[3]**	**293[3]**
New York	**20.0[3]**	**2,390[3]**	**1,262[3]**	**556[3]**	**207[3]**
Washington	**19.6[3]**	**2,555[3]**	**1,501[3]**	**494[3]**	**193[3]**
	Nonmetro areas receiving high medical payments and high public assistance could be significantly affected by welfare reform and changes in medical insurance.				
Oregon	19.4[3]	2,293[3]	1,408[3]	414	144
Tennessee	19.4[3]	1,897	1,038	414	174
Alabama	19.3[3]	1,926	1,046	391	215[3]
Maine	**18.9[3]**	**2,275[3]**	**1,221[3]**	**556[3]**	**198[3]**
Montana	18.9[3]	2,164[3]	1,285[3]	424	142
Minnesota	18.7[3]	2,272[3]	1,178	573[3]	175
Ohio	**18.6**	**2,161[3]**	**1,210[3]**	**465[3]**	**192[3]**

See footnotes at end of table.

Continued—

any other individual program except Social Security and medical payments.

Some States' Nonmetro Areas Greatly Depend on Transfers

Ranked by the percentage of income from transfers, nonmetro areas in 20 States depend more on transfer income than the U.S. nonmetro average (table 2). Most of these State nonmetro areas also received higher than average amounts of transfer income per capita. However, nonmetro areas in six States (Louisiana, Mississippi, Kentucky, Arizona, Tennessee, and Alabama) received higher than average percentages of income from transfers but lower than average per-capita transfers. Because these nonmetro areas had lower than average per-capita income, their relatively low transfer payments accounted for higher than average proportions of their income.

Of the 20 high-proportion nonmetro areas, 14 had high retirement and disability benefits, 12 had high medical payments, and 10 had high public assistance payments. Some were high in more than one category. Five, the nonmetro areas of Michigan, California, New York, Washington, and Maine, were high in all three. Of the high-proportion nonmetro areas, only nonmetro Tennessee had lower than average payments in all three categories.

Table 2—Ranking of nonmetro areas of States by percentage of income from transfers, 1986[1]—Continued

Area	Income from transfers	Per-capita transfers[2]			
		Total	Retirement and disability	Medical payments	Public assistance
	Percent	*Dollars*			
New Mexico	18.5	1,810	983	337	193[3]
South Carolina	18.1	1,828	1,013	372	212[3]
Texas	18.1	2,063	1,132	491[3]	141
Wisconsin	**18.0**	**2,179[3]**	**1,168**	**501[3]**	**192[3]**
Illinois	18.0	2,264[3]	1,306[3]	464[3]	143
North Dakota	17.7	2,154[3]	1,101	643[3]	112
Georgia	17.7	1,904	1,001	441	199[3]
North Carolina	17.6	1,865	1,040	395	171
South Dakota	17.6	1,975	1,095	481[3]	120
Delaware	17.4	2,111	1,329[3]	383	117
Massachusetts	17.1	3,033[3]	1,806[3]	711[3]	155
Virginia	17.0	2,016	1,245[3]	360	139
Maryland	16.8	2,207[3]	1,302[3]	470[3]	139
Idaho	16.7	1,754	1,061	306	100
Hawaii	16.4	2,015	1,095	394	271[3]
Kansas	16.0	2,127[3]	1,259[3]	489[3]	92
Vermont	**15.9**	**2,038**	**1,062**	**479[3]**	**196[3]**
Iowa	15.8	2,042	1,223[3]	429	124
Utah	15.5	1,529	936	238	88
Colorado	15.4	1,928	1,094	360	157
Indiana	15.4	1,852	1,114	412	93
Alaska	14.9	2,377[3]	772	300	226[3]
Rhode Island	14.8	2,434[3]	1,519[3]	477[3]	115
Nebraska	14.8	1,938	1,178	415	94
Nevada	13.9	2,029	1,394[3]	282	65
New Hampshire	13.3	1,981	1,170	487[3]	84
Wyoming	12.7	1,579	932	239	83
Connecticut	11.7	2,042	1,181[3]	485[3]	105

[1]New Jersey and the District of Columbia are not listed because they have no nonmetro areas.
[2]Total transfers include all categories. Therefore, retirement and disability, medical payments, and public assistance do not add to the total.
[3]Percent or per-capita amount is at or above the nonmetro average.
Source: Computed from data provided by the U.S. Department of Commerce, Bureau of Economic Analysis.

Transfers Make Nonmetro Areas More Stable But Sensitive to Program Changes

Transfers have become important in nonmetro areas, in both dollars paid per capita and share of personal income provided. Transfer payments can buffer the effects of recession on local economies because most transfers bring State and Federal dollars into local areas. Transfer programs that are tied to economic conditions, like unemployment compensation, increase when recessions cause earnings to fall. Also, the elderly and public assistance recipients tend to spend their income in the local economy, providing local retailers with a consumer base that helps them survive recessions that force the unemployed to reduce purchases. Some rural development specialists advocate attracting retirees because Social Security recipients receive 42 percent of all transfer income and tend to spend this income locally (*4, 5, 6*).

But, dependence on transfer payments makes rural economies sensitive to changes in Government programs. Local business and government leaders in areas heavily dependent on transfers should be aware of proposed program changes that could alter transfer payments. For example, the President signed into law a catastrophic medical insurance program for Medicare and Medicaid recipients in July 1988 and a welfare reform program in October 1988.

The catastrophic medical program could affect nonmetro areas with high per-capita medical payments. The welfare reform program may have a similarly large influence on nonmetro areas with high per-capita public assistance payments. The nonmetro portions of nine States (Louisiana, Michigan, California, New York, Washington, Maine, Ohio, Wisconsin, and Vermont) have high medical and public assistance payments and will likely be strongly affected by both catastrophic insurance and welfare reform.

References

(1) Bain, John S. "Transfer Payment Impacts on Rural Retail Markets," *Community Issues*. No. 68. Dept. of Agr. Econ., Univ. of Wisconsin-Madison, May 1982.

(2) _____. "Transfer Payment Impacts on Rural Retail Markets: A Regression Analysis," unpublished manuscript. Dept. of Agr. Econ., Univ. of Wisconsin-Madison, 1982.

(3) Bentley, Susan E. *Transfer Payments and Investment Income in the Nonmetro United States*. RDRR-71. U.S. Dept. of Agr., Econ. Res. Serv., June 1988.

(4) Pulver, Glen C. "Economic Growth in Rural America," *New Dimensions in Rural Policy: Building Upon Our Heritage*. U.S. Congress, Joint Economic Committee, July 5, 1986.

(5) Shaffer, Ron. "The Silver-haired Economic Base," *Community Economics*. No. 52. Dept. of Agr. Econ., Univ. of Wisconsin-Madison, January 1981.

(6) Summers, Gene F., and Thomas A. Hirschl. "Capturing Cash Transfer Payments and Community Economic Development," *Journal of the Community Development Society*, Vol. 16, No. 2, 1985.

For Additional Information...

Contact Linda M. Ghelfi or Robert A. Hoppe (202-786-1537), Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture, Room 340, 1301 New York Avenue, NW., Washington, DC 20005-4788.

Definitions

Metro areas. Metro areas are defined by the U.S. Office of Management and Budget (OMB) as one or more counties with a central place or urban core of 50,000 or more residents and a total population of 100,000 or more. Metro areas used in this study were designated by OMB as of June 1987.

Nonmetro areas. Counties that are not part of a metro area are nonmetropolitan. For this analysis, nonmetro counties in each State were aggregated to a State nonmetro area.

Transfer payments (transfers). Cash or goods, received by individuals largely from Government programs, for which no work was done in the current period. Categories of transfer programs in this bulletin include:

- **Retirement and disability programs.**

  Social Security. Cash benefits paid to retired workers, dependents, and survivors; special payments to persons 72 years of age and over; lump sum payments to survivors; and disability payments to workers and their dependents.

  Other retirement/disability programs. Railroad retirement and disability payments, Federal civilian employee retirement payments, State and local government employee retirement payments, military retirement payments, Federal and State workers' compensation payments, State temporary disability payments, and black lung payments.

- **Medical payments.**

  Medicare. Payments to vendors of medical services on behalf of aged and disabled Social Security recipients. Also includes premiums paid by State and local public assistance agencies to obtain supplemental medical insurance coverage for aged persons receiving welfare.

  Medicaid. Payments to vendors of medical services on behalf of Aid to Families with Dependent Children and Supplemental Security Income recipients and other persons determined to be "medically needy" by the States.

  CHAMPUS. Payments under the Civilian Health and Medical Plan of the Uniformed Services for medical treatment at nonmilitary facilities of dependents of active military personnel and retired military personnel and their dependents.

- **Public assistance.**

  Supplemental Security Income (SSI). Federal and State payments to needy aged, blind, or disabled people. SSI was instituted in 1974. Before that time, old-age assistance, aid to the blind, and aid to the disabled were individual programs. In this paper, total payments under the separate programs in 1969 are referred to as SSI payments.

  Aid to Families with Dependent Children (AFDC). Federal, State, and local government payments to needy female-headed families with children, orphans, and, in some States, two-parent families with an unemployed breadwinner.

  Food Stamps. Value of food stamp coupons issued to individuals and families on the basis of need. In contrast to SSI and AFDC, persons may receive food stamps regardless of any characteristics other than low income and asset levels.

  Other assistance programs. Payments from general assistance, emergency assistance, refugee assistance, foster home care, earned income tax credits, and energy assistance.

- **Unemployment insurance.** Payments of State unemployment compensation; unemployment compensation to Federal civilian employees, railroad employees, and veterans; trade adjustment allowances; and payments of other minor unemployment programs.

- **Veterans' benefits.** Payments of veterans' pensions and disability compensation, educational assistance to veterans and to spouses and children of disabled or deceased veterans, death benefits paid to policyholders under veterans life insurance programs administered by the Veterans Administration, payments to paraplegic veterans, payments for autos and conveyances for disabled veterans, and State veterans' bonuses and assistance payments to needy veterans.

- **Miscellaneous payments.** Federal education and training assistance payments (except veterans); Federal, State, and local government payments to nonprofit institutions; corporate gifts to nonprofit institutions; business payments to individuals including personal injury payments to individuals other than employees, consumer bad debt, cash prizes, and unrecovered thefts of cash and capital assets; and other miscellaneous government payments to individuals.

☆U.S. GOVERNMENT PRINTING OFFICE:1989-241-852:00099/ERS

Additional Copies of This Publication...

Can be purchased from ERS-NASS Reports, P.O. Box 1608, Rockville, MD 20850. Order *The Importance of Transfer Payments in Nonmetro America,* AIB-562. Cost: $3. Write to the above address or call the ERS-NASS order desk at 1-800-999-6779 (8:30-5:00 ET). Do not send cash. You may charge your purchase by telephone to your VISA or MasterCard. Foreign customers, please add 25 percent for postage (includes Canada).

Purchase microfiche copies ($6.95 each) from the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, VA 22161. Order by title and series number. Enclose a check or money order payble to NTIS; add $3 handling charge for each order. Call NTIS at 703-487-4650, and charge your purchase to your VISA, MasterCard, American Express, or NTIS Deposit Account. NTIS will RUSH your order within 24 hours for an extra $10; call 1-800-336-4700.

U.S. Department of Agriculture
Economic Research Service
1301 New York Avenue, NW.
Washington, DC 20005-4788